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Inside

March/April 2005

Open Your Door to Former Employees

"Boomerangs," "rehires," and "retreads" are names given to firm alumni who resign from a firm and are later welcomed back. Many firms reap the benefits of maintaining contact with former employees through an organized approach to developing and supporting a network.

Recruiting employees will probably continue to be an urgent task as the demand grows for experienced CPAs in both public accounting firms and corporations. According to the *Des Moines Business Record Online,* the need among CPA firms and corporations is "particularly for experienced CPAs with between three and seven years of experience."

For many CPA firms, one successful approach to recruiting has been to network with former employees. This approach to keeping in touch bolsters staff recruitment, given that many former employees choose to return to their former employers for various reasons. It also helps firms reap the benefits of using alumni to recommend prospective employees and provide leads to prospective clients.

Alumni networks may be formal and highly structured, or they may simply rely on casual personal contacts. Many alumni networks have been formed by or for former employees of companies. The larger the company, the more likely that its alumni network support will be very structured. About 2,500 Microsoft employees, for example, comprise the Microsoft Alumni Network. For a $100 annual fee, member benefits include a directory of members' addresses and activities and live events on topics such as raising money to start a business.

Among CPA firms, Grant Thornton launched an Alumni Network site last November. The network (http://alumni.grantthornton.com) is a resource for Grant Thornton alumni throughout the United States. "Our people—both past and present—are our most important asset," says Shelley Stein, Grant Thornton's U.S. managing partner of client services. "And, fostering lifelong relationships with our people is an integral part of the firm's culture."

Once logged onto the site, alumni can:

- Contact former coworkers.
- Search for jobs and business opportunities.
- Find information about upcoming alumni events.
- Read about what's new at Grant Thornton.

Smaller firm opportunities

Predictably, most large CPA firms have formed alumni networks that meet digitally and at scheduled events. Firms of any size can use the Web resources available to help firms establish a Web site (see "Organizing an Online Alumni Network" on page 2). One drawback about online networks, however, is firms' inability to restrict access to the networks by former employees with whom they would rather not stay in touch.

Web resources are not needed to keep former employees in the firm's network. Fitts Roberts PC, a Salt Lake City CPA firm of 40 professionals, keeps in touch with former employees by including them on the firm's mailing list, inviting them to continuing education programs, and including them in social events. "We treat them like clients," says Steve McEachern, a partner in Fitts Roberts. Employees have returned to Fitts Roberts with great success. Mr. McEachern cites two partners: One had left to go into industry, the other to a Big Four firm. After their return, both rose in the firm to become some of the firm's most successful partners. In addition, some firm managers are rehired employees.

Former employees who left to go into industry are included in the alumni network. In their industry positions, they become potential new clients. "Keeping in

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Organizing an Online Alumni Network

Several Web tools can help you establish an online alumni network. Here are a few of them:

- ***Corporate Alumni* (www.corporatealumni.com)**
- ***Topica* (www.topica.com)**
- ***eGroups* (www.egroups.com)**
- ***Onelist* (www.onelist.com)**

The latter two URLs will bring you to the Yahoo-Groups site.

touch with alumni," says Mr. McEachern "is as much a marketing tool as a recruiting tool."

Some smaller firms do not have the resources to sponsor events that include former employees. They can, however, use other approaches that require less time and fewer financial resources. Some firms regularly send e-mail messages to former employees or telephone them. Managers and supervisors can be assigned the task of contacting former workers who resigned from the firm on good terms.

The loyalty question

The tight employee market has caused many employers to rethink their doubts about the loyalty of former employees. Instead, many employers now think that rehired employees are more loyal to the firm than other employees. For smaller firms, the rehire may be a boon. In general, rehiring is less expensive in time and financial resources than hiring unknown employees. This is significant given that, according to a review of client data by Pricewaterhouse Coopers, the cost of replacing an employee ranges from one-half to four times the employee's compensation, depending on rank and skills. Another advantage is that the rehire knows the firm culture and has already established relationships with other employees, bringing experience and knowledge along with contacts that he or she gained while outside the firm. In addition, he or she can restart quickly. Having been trained in the company's procedures, he or she knows how things are done.

Nevertheless, these benefits will be lost if the rehire doesn't stay. To deter a second exit, the firm needs to screen prospective rehires carefully. Before screening prospects, find out whether they have acquired additional qualifications, such as an MBA, a credential or certification, or deeper experience in a particular practice area. Also, ascertain what they missed about the firm while they were elsewhere.

If you follow up with an interview, find out why the former employee left. If the reason for leaving still exists, the rehire is likely to leave again. Also, ask whether the prospect has changed such that the firm is now more desirable for him or her.

Other employees' attitudes

To gain the benefits of rehiring employees, the employer must address the attitudes of other employees toward rehiring. Many human resources managers believe employees will react favorably to the rehiring of an employee. The rehire's return suggests that the firm is a desirable place to work. In addition, the return may help retain employees by suggesting to them that the grass isn't always greener on another side.

If rehires haven't gained any significant experience or qualifications during their absence, they usually return to the same or a similar position at the same salary. Rehires who have enhanced their qualifications may be looking for and are sometimes hired for positions at a higher level and with higher compensation. This may trigger resentment among other employees. In these cases, the rehires need to understand that they must prove quickly to other employees that they deserve a new title or more compensation.

Restoring benefits

Policies for restoring benefits to rehires vary. Some firms treat rehires as if they were new employees. Others count rehires' previous service in determining and calculating some benefits. Firms have discretion over their policies related to vacation time; eligibility for health, disability, and life insurance; and similar benefits. Pension vesting and participation policies, however, are determined by government regulations. Employers, for example, have to count all of a rehire's prior years of service in determining pension vesting and participation. They can disregard the prior service if the rehire was under 18 years of age when the prior service took place, or if the service took place when the firm had no pension plan. According to *HR* magazine, the common policy is to restore all benefits quickly. Employees can discount previous years of service, however, according to regulations concerning the IRS's "break-in-service rules" and the length of a rehire's absence.

Most firms will restore all benefits if a rehire returns during a limited time period, usually no longer than a year. Some firms also take into account the reason for a rehire's leaving in determining when and whether full benefits will be restored. For example, a laid-off employee will be allowed a longer period of absence than one who resigned voluntarily.

Whatever the policies established, consistency in execution helps prevent resentment. To be realistic, however, a firm may

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Editor: William Moran.

need to make exceptions if a prospect brings technical skills badly needed by the firm. A prospect is more likely to negotiate compensation and benefits if the firm has initiated discussion about an employee's return. In the latter case, remember that, usually, rehiring a former employee costs less than hiring a new employee. The higher benefits and compensation costs may be more than offset by the costs not incurred, the costs of training, advertising the job, and paying recruiting fees.

Need Help? Just Wait a Month

According to a recent Robert Half International survey of chief financial officers (CFOs), the average time required to fill a staff-level accounting position is four weeks, while filling a management position requires six weeks. The survey, conducted by an independent research firm, includes responses from 1,400 CFOs from a stratified random sample of U.S. companies with more than 20 employees.

A problem that may arise with a long decision-making period for hiring is that other staff will feel overburdened, which in turn can lead to further turnover. To avoid this outcome, Robert Half chair and Chief Executive Officer Max Messmer advises companies to think of recruiting as an ongoing effort, even when an organization is not actively seeking more staff. This can be done, Messmer says, "By maintaining a broad personal and professional network..."

Web Sites Worth Seeing

The following Web resources may be useful to your firm or your clients.

Owners' job description

"The duty of ownership is to assure excellent governance, not only in their choice of directors but also in establishing a mechanism through which family ownership matters can be discussed and resolved. It is also ownership's duty to encourage or initiate the development of policies to guide the business and family in their relationship with each other." This is part of a job description for family business owners published by Family Enterprise Publishers.

To get the complete description visit **http://www.efamilybusiness.com/fep_articles_free.php**.

Strategy development for mid-corporate businesses

Research into the mid-corporate sector's attitude towards strategic planning led Grant Thornton to develop a "Nine-point plan for strategy development." You'll find the plan at **http://www.top-consultant.com/articles/nine point plan.pdf**.

Avoiding Conflicts of Interest in Divorce Engagements

Many CPA firms are asked to provide services for clients who are divorcing. When this situation arises, the firm needs to determine whether any perceived or potential conflicts of interest exist. Some nonauthoritative guidance for avoiding such conflicts is offered in a recent AICPA publication, A CPA's Guide to Family Law Services—Business Valuation and Fraud & Litigation Services Practice Aid 05-1.

Divorce engagements can pose potential conflicts of interest, or, at a minimum, the perception or actual lack of objectivity. Before accepting an engagement, the CPA should determine whether there are any perceived or potential conflicts. This is particularly important if the CPA is retained to represent an existing client. The following are situations in which this circumstance may come about:

- The CPA has previously performed services for both the husband and wife, such as tax preparation, financial planning, and estate planning, and, as such, has confidential information, the disclosure of which can be detrimental to an opposing party.
- The CPA performs services for a business owned by one or both of the parties. Potential or perceived conflicts that may exist in representing an existing client are also discussed in AICPA Consulting Services Special Report 03-1, *Litigation Services and Applicable Professional Standards* (product no. 055297).
- If the CPA is performing or has previously performed other services for one of the parties to the litigation and possesses confidential information, this information could be subject to discovery.

Independence issues may also arise if an expert witness repeatedly testifies for one attorney. Opposing counsel may attempt to imply a lack of objectivity based upon the continuing financial relationship between the CPA and the attorney.

A number of conflicts of interest can be overcome as long as the CPA informs the client and opposing party of the potential conflict and the parties express no objections.

The engagement letter: documenting the CPA's role

Although not required, CPAs should strongly consider using an

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engagement letter when accepting family law engagements. An engagement letter will not only help to establish a clear understanding of the roles and responsibilities of the CPA but also manage the expectations of all parties. Such letters should include, among other things, the scope of the engagement; the nature and limitations of the services to be performed; the parties to the contract; the type of reports to be provided; the billing and collection of the fees to be charged; and any disclaimers relevant to the matter.

Some attorneys may ask that an engagement letter not be used, as it may imply a restriction on the conclusions and scope of work of the CPA and, as such, may be used against the CPA at trial. Nevertheless, it is recommended that a written engagement letter be obtained. CPAs are advised to refer to AICPA Practice Aid 04-1, *Engagement Letters for Litigation Services* (product no. 055298), for guidance on developing the proper language for client engagements. The guidance includes the definition of the client in each engagement.

Other attorneys request an engagement letter so they and their clients will have a better understanding of the scope and cost of the work to be performed. The engagement letter is a contract between the CPA and the client. One item normally discussed in an engagement letter is the various fees charged and the determination of who will be responsible for payment.

The engagement letter will also indicate who the client is. In some cases, the client will be the client's attorney; at other times, the litigant will be the client. The attorney will direct the CPA in this matter. If the CPA is acceptable to both parties, the engagement letter should be signed by all those in agreement. At this point in the engagement, most practitioners request a retainer be paid to them to offset future fees.

The CPA may also be engaged by the court or named as an expert, receiver, or some type of special master. Among a number of things, it is preferable for the court order to specify the nature and scope of the work performed, how the CPA is to obtain records and documents, any restrictions on contacting parties, and the party or parties responsible for payment.

Budgeting and billing for the engagement

Billing and collecting for family law engagements is unique. It is difficult to predict the amount of the fees that will be incurred or the results of the work performed. These factors, combined with the emotional turmoil of the parties to the divorce, explain why the collection of professional fees can become an issue. In order to avoid collection issues, practitioners performing family law engagements are urged to get a retainer in advance of performing work and to make sure they stay ahead of the client throughout the engagement.

It is normally not possible to estimate the total time required to complete a family law engagement. The court or attorney often request additional work above and beyond the contemplated scope of the initial engagement. For instance, through no fault of any of the parties, gathering and interpreting the data may be difficult. Also, unanticipated circumstances may require additional work, such as through the intervention of a third party; or if the scope of the work increases because one or both parties prove to be uncooperative in producing information.

There are different approaches to billing for the services associated with giving testimony, either at trial or by deposition. Some CPAs bill higher rates for testimony, reasoning that expert trial testimony or giving depositions is more difficult and more specialized, and as such, warrants a premium rate. Other CPAs use standard billing rates for the services associated with giving testimony, or waiting to give testimony, in the belief that a CPA's time is a CPA's time, regardless of the work being performed, and, therefore, should be billed at a consistent rate.

Overall, it is incumbent upon the CPA to keep the client informed of the CPA's time and fees incurred on the job, especially if an estimate of the time or cost has been given. Frequent invoicing serves a twofold purpose. First, it ensures that the client is aware of the ongoing scope and cost of the project. Second, it assists the CPA in the collection of fees.

Obtaining the necessary documents

The scope of the engagement determines the content and nature of the required data. As stated previously, it is ideal for the CPA to become involved as early as possible in the discovery process. This includes assisting in the formulation of the discovery requests. Attorneys often send out boilerplate requests that may be irrelevant to the CPA's particular requirements for the engagement. If given the opportunity, the CPA should help tailor the requests to cover the scope of the work performed and additional requests as needed.

In a number of circumstances, such as the valuation of businesses with third-party owners, access to information may prove to be difficult. In those circumstances, it is not unusual for the business to be represented by counsel and for confidentiality orders (that is, protective orders) to be entered by the court.

Editor's note: The preceding is from *A CPA's Guide to Family Law Services*–Business Valuation and Fraud & Litigation Services Practice Aid 05-1, published by the AICPA. This practice aid is intended to help practitioners provide services to clients and attorneys in the area of family law. The practice aid walks you through family law engagement processes and shows you what to expect each step of the way. In addition, you'll find information on the divorce process, engagement planning, work flow, process, and support. The appendices offer additional information, guidance, and helpful Web sites, including professional standards and literature related to divorce litigation engagements.

Route To:

Spring 2005

The Risk Management Resource

Provided by Aon Insurance Services

RECORD RETENTION AND THE PAPERLESS OFFICE

After much hype and anticipation, the age of the paperless office is here. Most CPA firms today use technology to render client services, communicate internally and externally, and manage and store business data. But are you aware of the potential risks associated with creating, maintaining, and destroying electronic documents? To protect yourself and your firm, it's important to understand the technology you use, to establish and update guidelines for the use of electronic communications, and to implement appropriate controls over the record retention processes your firm employs.

COMMON ELECTRONIC COMMUNICATION METHODS

Some of the tools commonly used by CPA firms include:

- ***Telephones***

  Generally speaking, telephone conversations are not saved electronically on computer storage devices; however, they can be recorded. Federal law (The Electronic Communications Privacy Act) permits recording if at least one party to the call has given consent, but state law varies. Most states allow recording provided that at least one party to the conversation consents to the recording, but some states require the consent of both parties prior to recording. Before recording or retaining a copy of any telephone conversation, be sure to consult with your attorney regarding applicable state laws.

  Voicemail is another popular workplace technology. CPAs use both firm and client voicemail systems to send and receive information relevant to client engagements. Relying on voicemail as documented evidence in rendering client services is not recommended. Voicemail is a handy means of exchanging information quickly, but it is not particularly secure. Notwithstanding the client's implied consent to be recorded by leaving a voicemail message, the possible application of federal and state privacy laws, along with a CPA's duty to maintain client confidentiality under the AICPA Code of Professional Conduct and state board of accountancy regulations, suggest that using voicemail as a means of document storage and retrieval is ill-advised. After listening to a voicemail from a client, delete it promptly, and verify the information via a follow-up telephone conversation or written communication with the client.

- ***E-mail***

  E-mail is the communication tool of choice in many CPA firms, and it is used extensively in client communications. Like all other computer data, e-mails are subject to discovery. Accordingly, CPA firms should have an e-mail usage policy in place. The policy should be simple, clear, and define the circumstances under which e-mail use is or is not authorized. Additionally, the policy should include guidelines on deleting or retaining e-mails at the time they are sent or received, depending on the nature of the e-mail.

  Once an e-mail is created and sent, it continues to exist on both the sender's and recipient's computers and servers due to backup mechanisms. E-mails should be retained in accordance with the CPA firm's general document retention policy, and there should be a control in place to monitor compliance with the policy. Consult with your information technology specialist on the use of e-mail "shredding" software, which actually overwrites data to render it unreadable. Such software should comply with Department of Defense standard DoD 5220.22-M, which is the industry standard for this type of software.

- ***Instant Messaging (IM) Applications***

  IM applications enable instant communication. However, IM is not a secure method of communicating confidential information, and it leaves an electronic data trail on the computers and backup storage systems involved. Like all other data that exists on firm computers and backup systems, this information is subject to discovery for production in professional malpractice lawsuits. Additionally, because IM is used as a conversation tool and an alternative to the telephone, users often do not consider the content of their messages prior to sending them.

  Additionally, it is difficult to monitor the ongoing use of IM. For these reasons, from a risk management perspective, IM is not recommended for use within CPA firms and should not be employed to retain and store information relevant to client engagements.

Electronic Documents

CPA firms use a variety of software applications to create documents. All applications should record when and by whom the docu-

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ment was created, when it was changed, and who changed it. Users should recognize that because these documents are often critical to a CPA's working paper files, it is important to preserve evidence of this information. Duplicate or superseded electronic documents should be deleted at the conclusion of each client service. To do so, consult with your information technology specialist regarding backup systems and document disposal.

Document Imaging and Storage Systems

The marketplace offers a variety of document imaging and storage systems designed to assist CPA firms in managing electronic documents. Some systems include off-site data storage or storage via the Internet using a third-party service provider. Others are scanning and storage devices, or network appliances designed to allow firms to store and retrieve all types of documents.

Regardless of the technology used, document imaging systems should feature a password-protected design that authenticates the date and time a document is imaged and indicates the person who executes the imaging. If your firm is already using such a system, it is important to conduct regular training classes and monitor compliance with your firm's policy on system use and record retention. If you are considering purchasing a system, investigate the following:

- Cost
- Design
- Ease of use
- Background, experience, and continued viability of the vendor
- System and off-site security
- References from other CPA firms that are using the system

Paperless Working Papers

Paperless applications are widely used for preparing tax returns, performing bookkeeping and audit services, and generating client financial statements. Each application is generally designed to stand alone and allow CPA firms to retain both client data and working papers electronically. Historically, there has been much consolidation within this part of the software application industry, and products are often superseded. From a document retention perspective, it is critical that each application be saved in a secure environment so that data saved in accordance with a firm's document retention policy can always be retrieved, even if the software provider is no longer in business.

Most CPA firms use multiple software applications and may use more than one storage and backup method as well. Additionally, new applications are constantly being integrated into the practice. Firm management, regardless of whether the firm is a sole practitioner or has multiple offices, must catalog the various software applications and storage systems in use. Consider requirements to retain working papers by reviewing the regulations of the U.S. Treasury Department, state departments of revenue and other state and federal agencies, as well as state board of accountancy rules and regulations applicable to client industries (including the industries of former clients).

The use of electronic documents can significantly affect document storage and retrieval. That's why it's important to consult with an information technology specialist to determine if your firm's existing record retention policy must be updated to include specific guidance about the use of electronic communications and the retention, storage, retrieval, and destruction of electronic documents. In the long run, this not only aids firms in maintaining documents that may be needed to assist clients or defend malpractice claims, but also allows firms to maximize the use of their existing systems.

For more information about document retention, consult the practice management guide ***Retaining Engagement Records and Responding to Requests for Records: A Guide for CPA Firms,*** available exclusively to AICPA Professional Liability Insurance Program policyholders at no charge in the Policyholder Resource Center of the AICPA Insurance Programs website at www.cpai.com.

Protect Your Firm (Executive Summary):

There are legal liability issues associated with creating, maintaining, and destroying electronic documents. To protect yourself and your firm:

- Understand the technology you use.
- Establish guidelines for the use of electronic communications, and monitor compliance.
- Implement appropriate controls over the record retention processes your firm employs.
- Consult with an information technology specialist about updating your firm's existing record retention policy to include specific guidance about the use of electronic communications.

JANUARY 2005

By Joseph Wolfe, Assistant Vice President, Risk Control, Accountants/Lawyers/Realtors Professional Liability, CNA Center, Chicago, IL 60685

Additional Resources:

Document Retention in the Electronic Workplace, by Michael R. Overly and Chanley T. Howell, Pike & Fischer, Inc., 2001

http://www.willyancey.com/electronic_evidence.htm#Email (a Web page containing a useful list of links to articles and other materials about Electronic Evidence and Records Retention, maintained by Will Yancey, PhD., CPA)

"A Paperless Success Story," by Sarah Phelan, *Journal of Accountancy,* October 2003

Guide to Paperless CPA Firm Administration, by Tom C. Davis and Roman H. Kepczyk, available at *www.accountingweb.com*

SOX FALLOUT: NEW SERVICE OPPORTUNITIES AREN'T WITHOUT RISK

Many CPA firms have new service opportunities that arise from restrictions set by the Sarbanes-Oxley Act of 2002 (SOX). Although these opportunities could lead to profitable new business, there is associated risk. Failure to realistically assess the risks and concerns associated with new client engagements prior to establishing a relationship could lead to client dissatisfaction and heightened professional liability exposure. As you wade through new service opportunities, it is important to evaluate these risks and understand the drivers of SOX-related changes.

Some of the more common reasons companies are changing CPA firms include:

- Adherence to provisions of Section 201(a) of SOX, which prohibits an auditor of a public company's financial statements from performing specific categories of non-audit services for the same company.
- Personnel resource constraints at national CPA firms due to the increased demands associated with auditing public companies under the standards of the Public Company Accounting Oversight Board (PCAOB). In many cases, national CPA firms have terminated relationships with smaller public company clients because of the lack of personnel to service them.
- CPA firm re-evaluation of client acceptance and retention requirements. Some client relationships are being terminated based on an anticipated reduction in account profitability due to SOX scope-of-service restrictions, risks associated with continuing the relationship given the higher level of required auditor reporting under SOX, and other factors.
- The higher costs of continuing to engage a national CPA firm. The increases are due to extended audit time and higher fees associated with new internal control reporting requirements applicable under SOX.
- A realization by the management of some public companies that their personnel and other internal resources are not sufficient to satisfy the internal control review, documentation, and evaluation requirements necessary for management to report on internal controls as required by SOX.

These drivers have created new opportunities for non-national CPA firms to audit the financial statements of small public companies and to assist companies they do not audit in documenting and testing internal controls over financial reporting.

POST-SOX SCENARIOS

CPA firms should conduct thorough due diligence investigations prior to accepting new clients and engagements. Consider the following example:

A national firm auditor informed a small public company that it would not be able to continue as auditor for 2004. The partner indicated that the firm was notifying the company early to allow sufficient lead time for management to engage a new audit firm. The small public company contacted a smaller CPA firm about performing the 2004 audit. The CPA firm aggressively pursued the engagement and proposed a lower fee than the national firm had been charging. Short cuts were taken in the firm's new client/engagement acceptance procedures, and the engagement was accepted. Although the firm had performed two other public company audits, during the engagement, the workload stretched its staff to its limits. The firm principals discovered that their firm didn't have the industry experience needed to serve the client and wasn't in a position to deal with the company's weak internal control environment in performing the audit under PCAOB auditing standards.

Accepting a new public company audit client without applying appropriate client and engagement screening procedures is a significant breakdown in quality control. Additionally, accepting the engagement without first determining whether a firm can complete the work in a professional manner is a violation of professional standards that presents significant professional liability exposure.

The risks in providing services to a public company are substantially greater than serving small, privately owned businesses— even in a consulting engagement — because of the potential exposure to lawsuits from shareholders and company directors and officers. Further, the need to comply with the internal control review and documentation requirements is considerably more complex than that required in financial statement engagements for private companies.

DUE DILIGENCE

Consider the following questions before accepting new client engagements for public companies:

- What is the firm's knowledge and understanding of SOX requirements and the "Internal Control-Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)?
- In terms of audit engagements, is the firm registered with PCAOB and prepared to comply with its inspection requirements?
- What is the firm's knowledge and understanding of PCAOB auditing standards? These standards differ from AICPA auditing standards. For instance, SAS No. 96 states that "...the auditor should adopt reasonable procedures to retain audit documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention." However, the PCAOB auditing standard No. 3, *Audit Documentation,* requires that audit documentation be retained for seven years. Individual state boards of accountancy may establish additional audit documentation retention requirements.
- What is the availability of the firm's professional staff to meet the scope and timing requirements of the engagement?
- What are the results of the firm's new client/engagement acceptance procedures? Does management of the prospect company view its internal control responsibilities seriously, or are they merely trying to satisfy a regulatory filing requirement? Smaller companies generally do not have extensive internal control infrastructure systems and anti-fraud programs. Without a serious commitment by management to maintain these areas, the risk of fraud, theft and liability increases,

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as does the risk of civil litigation and criminal prosecution that could potentially involve the company's consultants.

- What is the firm's ability to analyze, evaluate and document internal controls? While financial statement engagement experience is helpful, the skills needed to satisfy this potential client's needs are substantially more extensive than these services will provide.
- Is this engagement consistent with the intended overall direction of the firm? Are there sufficient other opportunities in this practice area to warrant the investment of firm resources in this engagement?

The passage of SOX and the implementation of associated rules and standards issued by the PCAOB have placed significant demands on public companies and their CPA firms. Although this has created new client opportunities for non-national CPA firms, they need to critically evaluate their available skills and resources, fully assess those of prospective clients, and determine the likelihood that the engagement will develop into a long-term and mutually beneficial client relationship before bidding on new work. These measures are best practices that help CPA firms manage risk in today's changing business environment.

Additional Resources

"Section 404 Compliance in the Annual Report" by Michael Ramos, *Journal of Accountancy*, October, 2004, *www.aicpa.org/pubs/jofa/oct2004/ramos.htm*

How to Comply with Sarbanes-Oxley Section 404: Assessing the Effectiveness of Internal Control (John Wiley and Sons) (AICPA Publication #029881)

An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements (AS2), http://www.pcaobus.org/Rules_of_the_Board/Documents/Rules_of_the_Board/Auditing_Standard_2.pdf

Risky Business (Executive Summary):

- Post-SOX reform has recently driven many public companies to change CPA firms.
- Resultant service opportunities for non-national CPA firms present new risks.
- Failure to realistically assess the impact that risks and concerns associated with new clients and engagements have on your professional liability exposure.
- It is important to determine the risk of potential client engagements and understand the drivers of SOX-related changes.
- You must establish and follow a framework for due diligence before accepting new clients and engagements.

JANUARY 2005

By John McFadden, CPA, CFE, Risk Control Consulting Director, CNA, Accountants Professional Liability, CNA Center, Chicago, IL 60685

The Professional and Personal Liability Insurance Programs Committee objective is to assure the availability of liability insurance at reasonable rates for local firms and to assist them in controlling risk through education. For information about the AICPA Program, call the national administrator, Aon Insurance Services, at (800) 221–3023, write Aon at Aon Insurance Services, 159 East County Line Road, Hatboro, PA 19040–1218, or visit the AICPA Insurance Programs website at **www.cpai.com.**

GAAP for Private Companies

The Private Company Task Force conducted extensive research on the issue of private company financial reporting. Here's a summary of the task force's findings and conclusions.

"Generally accepted accounting principles (GAAP) for private companies should be developed based on concepts and accounting that are appropriate for the distinctly different needs of constituents of that financial reporting." In addition "Although GAAP with exceptions and other bases of accounting are being used and are sometimes appropriate, the Task Force does not believe that these exceptions and other bases of accounting are the best response to the private company financial reporting findings identified in this study."

These two conclusions are based on research conducted among more than 3,700 lenders, investors, sureties, business owners, financial managers, and public accounting practitioners, as well as the perspectives and experiences of task force members. Although various groups have studied the issue of private company financial reporting as far back as 1975, this research effort is the most comprehensive ever undertaken. The research sponsor, the task force brought together by the AICPA, was composed of representatives of key constituents of private company financial reporting. The representatives included private company business owners and financial managers, practitioners, lenders, investors, and a former standards setter. The task force was led by Jim Castellano, past AICPA chair. William E. Balhoff, past chair of the PCPS Executive Committee, was a member of the task force.

An independent market research firm, The MSR Group of Nebraska, conducted the research.

The task force's charge

The purpose of the research was to explore whether:

- The general purpose financial statements of private companies, prepared in accordance with GAAP, meet the financial reporting needs of constituents of that reporting.
- The cost of providing GAAP financial statements is justified compared with the benefits they provide to private company constituents.

More information about the task force, its process, its report, and the research effort can be found at http://www.aicpa.org/members/div/acctstd/pvtco_fincl_reprt/index.htm

Key research findings

The task force's research found that the key constituent groups rated the overall value of GAAP as fairly high in things like consistency and in usefulness as a tool in capital allocation decisions. All key constituent groups, however, rated too many GAAP requirements as needing to be more relevant and useful. The task force also found that a majority of each key constituency that had an opinion believe it would be useful if the underlying accounting in GAAP reporting were different, in certain instances, for public companies than it is for non-public (private) companies.

A call for standards

In light of these research findings, the task force is calling for standards that focus specifically on the information needs of the key constituents of private company financial reporting. The task force expects that the ensuing standards will result in high quality financial information that is no less in quality than that provided about public companies. Each company and its stakeholders would decide what standards make sense for them. For example, a private company looking to go public in a few years very well may choose to stick with public company GAAP.

Next steps

The Institute has already taken steps to address its members' needs related to this issue. The AICPA Board has expressed its support, subject to the input of the AICPA's governing council, for the task force's findings and conclusions. The Institute has informed various key constituent organizations about the task force report to give them an opportunity to begin digesting this information. The Institute will work with the Financial Accounting Standards Board and the Financial Accounting Foundation on the next steps to address this issue, with the shared and unwavering goal of meeting the needs of the constituents of private company financial reporting.

Proposed Audit Documentation Standards

The AICPA's Auditing Standards Board issued an exposure draft of a proposed Statement on Auditing Standards (SAS) entitled *Audit Documentation.* The proposed Statement will supersede SAS No. 96 of the same name and amend SAS No. 1, *Dating of the Independent Auditor's Report* and SAS No. 95, *Generally Accepted Auditing Standards.* This proposed SAS establishes standards and provides guidance to an auditor of a nonissuer on audit documentation for audits of financial statements or other financial information being reported on. Copies of the exposure draft and executive summary are available at http://www.aicpa.org/members/div/auditstd/drafts.htm. The comment period ends May 15, 2005.

Surviving the Tax Season

Tax season makes great demands on nearly all CPA firm employees. Some deal with the demands better than others. A personal coach offers some tips for being as productive as possible during this time.

By Cheryl Leitschuh, Ed.D., LP

Have the endorphins kicked in yet? Endorphins are that wonderful natural hormone we all possess that gives us the feeling of serenity while we're operating at our peak performance. Through the release of endorphins, we add energy and vitality to our everyday existence. In the midst of this tax season, are you feeling serene while operating at your peak performance? Do you feel increased energy and vitality in your everyday work?

Dale Carnegie told the story of two men who were chopping wood. One man worked hard all day, took no breaks, and stopped only briefly for lunch. The other chopper took several breaks during the day and a short nap at lunch. At the end of the day, the woodsman who had taken no breaks was quite disturbed to see that the other woodsman had cut more wood than he. He said, "I don't understand. Every time I looked around, you were sitting down, yet you cut more wood than I did." His associate said, "Did you notice that while I was sitting down, I was sharpening my ax?"

Professional athletes know that to achieve best performance they need to work in cycles. They need to keep their target range of performance in sight. Working too fast or too slow, you move out of the target range and decrease performance. Knowing your target range and self-managing to this range is the key to increasing your energy and vitality.

Professional CPAs can use the same strategies during their peak performance time of the year, tax season. Following are three tips for achieving this vitality and energy.

1. Recognize when you're "in the zone."

What does it feel like when you are working on a project in your target zone of performance? How do you know you are there? What makes the difference? What do you do to make this event occur? The more answers you have to these questions, the more likely you can "sharpen the ax" to achieve peak performance.

If you have no clue to the answers to these questions, do not despair. This is a good time to observe yourself to see what answers appear. Like the more productive woodsman, take a few moments throughout the day to ask yourself whether you are "in the zone." If you are not, what is happening to keep you from being in your ideal zone? What do you need to do to move to the zone?

2. Pace yourself.

If endorphins kick in when you are in your target range then the question becomes, "How do I pace myself to stay in this range?" Just like the woodsman, taking time to "sharpen the ax" leads to increased performance. Recognize that you are the "ax" to get the work done during this intense time of year. What do you do to pace yourself and reenergize yourself throughout the day?

Here are several ideas I have suggested to others that worked for them:

- Think of "coffee breaks" as "energy breaks." Coffee does not create energy. Try substituting nutritional snacks such as nuts, fruit, bagels, and pretzels.
- Take a short walk at various times throughout the day. This can be up and down the stairs, a quick break outside, or even a walk around your office.
- Take a power nap. Twenty to thirty minutes of rest or sleep will reenergize your system. Hang the "do not disturb" sign outside your office for this refreshing energy break.

3. Follow your circadian rhythms.

Every day, we all have rhythms moving into and out of periods when our energy and creativity are highest and when they're the lowest. This is called your circadian rhythm and it varies from person to person. In general, some people are "night owls." Their highest energy levels occur later in the day. Others are "early birds." Their highest energy levels occur early in the day. By understanding your own circadian rhythm and designing your day around this pattern, you can use your natural rhythms to enhance your performance as a CPA professional.

Few of us are lucky enough to have a work schedule that follows our circadian rhythms. During tax season, when you are working ten to fifteen hour days, it is impossible to only work when your performance will be at its peak. You can, however, schedule your day based on your patterns. Schedule tasks requiring high energy and creativity during your peak times, and schedule maintenance and routine tasks during your low times.

Cheryl Leitschuh, Ed.D. is a coach and consultant to individuals, teams, and organizations. For information on services and free resources for individuals and organizations, email cheryl@career-future.com.

Letters to the Editor

The Practicing CPA **encourages readers to write letters on practice management and on published articles. Please remember to include your name and telephone and fax numbers. Send your letters by e-mail to *pcpa@aicpa.org*.**

PCPS
THE AICPA ALLIANCE FOR CPA FIRMS
Update

PCPS Update — Critical Information for CPA Firms

PCPS is here to help you succeed. How? We look at resources and regulations and consider how they will affect our members—CPA firms. We bring you up-to-date tools and information that shape your practice today and will affect your business in the future.

What can you do now to get ahead of the game? Here are the best resources, sites, information and events available for CPA firms today. Take advantage of them. Tell us what you need. We're here to help.

"My CPA Says Extend"

This new PCPS brochure explains the extension process for tax returns in simple terms and it answers common questions in an easy-to-read, understandable format. It's a handy way to show clients with complicated or incomplete data how extensions work, allowing you to focus your efforts on the most straightforward returns during the busy season.

You can download a copy at **www.pcps.org** by clicking on "Member Resources." Printed copies are also available for purchase at **www.cpa2biz.com**. PCPS member firms can purchase the brochures at the PCPS discounted price of $10.50 per package (50 brochures per package, product no. 017244). Be sure to enter the PCPS code when ordering and then update the cart to ensure that you receive your discount! This code can be found in the e-mail sent to PCPS members in December, or at **www.pcps.org**.

There is also room on the brochure to include your firm name and logo, so that you can include it in mailings and other tax season marketing efforts.

Volunteer for Financial Literacy!

Financial literacy is a pressing national concern—and one that allows firms to elevate their firm brand and position themselves as financial experts. CPAs can now join the effort to help educate Americans of all ages on financial topics through a program called "360 Degrees of Financial Literacy." Launched by the AICPA, this volunteer database matches CPAs with consumers who are seeking financial advice. If CPAs wish to do proactive outreach in their community, the AICPA has developed a suite of resources to support their efforts, including a general financial literacy speech and a PowerPoint presentation.

Register at **http://volunteers.aicpa.org/financialliteracy** by completing a brief application process. CPAs who sign on will be kept updated about the profession's Financial Literacy efforts at both the national and state levels.

For more information on the 360 Degrees of Financial Literacy effort, visit **www.aicpa.org/financialliteracy** or e-mail financialliteracy@aicpa.org.

2004 PCPS/TSCPA National MAP Survey

How's your firm's tax season going? How do your results compare with those of other firms of your size or in your region? Did you know the following?

- The tax net client fee per hour for all firms is $108.32.
- The tax software expense as a percentage of revenues is 2.2%.
- The average weekly working hours for CPAs during busy season is 55 hours.

To access your own copy, go to **http://map.pcps.org/misc/maphome/taxextract.pdf**

In case you still haven't seen the full survey results, they are available FREE to all PCPS members. Nonmembers can take advantage of this member benefit by joining PCPS for $35 per CPA in the firm (up to a maximum of $700). Alternatively, non-PCPS members can purchase data reports for $300 with a $100 discount to respondents and an additional $100 discount for AICPA members. For more information, call 1-800-CPA-FIRM or visit **www.pcps.org** and click on the 2004 PCPS/TSCPA National MAP Survey logo on the left side of the screen.

PCPS Represents Your Interests at the GAO

Earlier this year, PCPS was invited to meet with General Accounting Office (GAO) representatives to discuss the effect of the Sarbanes-Oxley Act on nonnational CPA firms, specifically whether the benefits received justify the major costs incurred. At this stage, the GAO was focused on the implications for smaller public companies; however, we believe that this initial dialogue will provide us with opportunities to give a voice to local and regional firms, and the privately held companies that are your clients. We'll keep you posted!

Gale Crosley To Present at the PCPS Medium Firm Network Group

The PCPS MAP Networking Groups are currently finalizing their agendas for the spring meeting programs. The Medium Firm Network meeting will feature a presentation by Gale

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Crosley on how to launch a new niche effectively. The Large Firm Network Group will review reports from the 2004 PCPS/TSCPA MAP Survey to identify applicable benchmarking data for their size firms.

As well as providing a forum for firms to discuss common goals, concerns, and best practices, the Networking Groups give participants opportunities to talk about their areas of expertise so they can determine alliance potential for future projects and offer referrals to their clients.

Meetings are open to all PCPS member firms. Dates and locations are as follows:

- *Small Firm Network Group* (for firms with 1-9 CPAs)—May 5 and May 6, Washington, D.C.
- *Medium Firm Network Group* (for firms with 10-24 CPAs)—April 28 and April 29, San Diego Mission Bay Beach, CA
- *Large Firm Network Group* (for firms with 25-49 CPAs)—May 12 and May 13, Las Vegas, NV

For more information, please visit **www.pcps.org**, click on "Committee Central" and then "Network Groups." You may also call 1-800-CPA-FIRM.

Recent Graduates Delaying CPA Exam

It's a classic good news/bad news story. The good news is that university accounting programs are full and accounting is again the most popular business major in the United States. However, the AICPA has seen a drop in the number of students matriculating and taking the CPA exam. As firms get busier and busier, it's easy to allow your new employees to defer the exam so they can help with the workload. PCPS encourages all firms with CPA exam candidates to schedule these test sessions. If your aspiring CPAs have not sat for the exam by their second tax season, they might experience "tax burnout," leave the firm, and never become CPAs. To help your employees on their way to being qualified, go to **www.cpa-exam.org.**

July Staffing & NAAATS Conferences

Mark your calendars for an exciting and productive conference on CPA firms' number one concern: staffing. The conference will be held on July 21 and 22 in Chicago. And the annual NAAATS Conference will be held on the same dates in New York. More details will follow as soon as they become available.

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